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American Airlines: Bankrupt, Like Every Other Legacy Airline

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American Airlines: Bankrupt, Like Every Other Legacy Airline

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In November of 2011, a giant fell. AMR, the holding company of American Airlines, American Eagle Airlines and AmericanConnection, which collectively serve 250 cities in 40 countries and average over 3,400 flights a day, filed for voluntary bankruptcy under Chapter 11 in a New York Federal Court.¹

The roots of this legacy airline run deep. What is now American Airlines (“American”), principle subsidiary of AMR, started out as American Airways in the 1920s – the pioneer age of aviation. AMR is one of four remaining legacy carriers to have survived the Great Depression, 1978 Airline Deregulation, September 11 and the Great Recession that began in late 2007. Slowly fading from our consciousness are the legacy airlines of the past: TWA, Eastern, and Pan American. Only United, Delta, U.S. Airways and AMR still exist. The fact that AMR held out to the end was a point of pride, mostly for 2003-2011 Chairman and CEO Gerard Arpey, because Arpey saw bankruptcy as a sign of failure. Ironically, this stubborn sense of nobility may prove to be one of the costliest errors AMR has made in its history thus far.²

While AMR’s major competitors were filing for bankruptcy in the years following September 11, 2001, AMR “stuck it out” and avoided Chapter 11 at all costs. While Delta, United and US Airways used bankruptcy to lower costs through restructuring of labor and vendor contracts, AMR continued to operate at a loss. While the other legacy airlines worked their way back to profitability in 2010, AMR saw a net deficit of \$471 million.³ Eventually, most AMR managers realized that without a structural change allowing realistic labor contracts, the company was doomed. With labor negotiations at a stalemate, the AMR board of directors saw no other choice but to file for Chapter 11. Chairman and CEO Arpey made his disagreement clear by immediately resigning.

The task of guiding the company through bankruptcy and beyond is now in the hands of former CFO Thomas Horton, who was promoted to CEO upon Arpey’s departure. According to Horton, the Chapter 11 bankruptcy was a creatively plotted strategic decision, not a desperate play for survival.⁴ Regardless of the reasoning, AMR executives have a lot of decisions to make about its future. Survival will depend on a variety of factors that affect all of AMR’s stakeholders. Will the company maintain its footing as one of the powerful legacy airlines, or will it join the many ghosts of the airline industry’s past?

THE STORY OF AMERICAN AIRLINES

American Airlines’ rich and colorful history has been intertwined with American aviation for nearly 90 years. In the 1920s, America was recovering from World War I, the first war to see major use of planes in offensive, defensive and reconnaissance missions. As the stories of aviator war heroes spread and the aviation industry propelled forward, Americans saw aviation as a sign of better times, of advancement and of prosperity. As more young men and women were drawn to the field, innovators pushed planes to new limits, and the utility of aviation was discovered. The U.S. Government began contracting companies for mail delivery, and entrepreneurs saw business opportunities in both mail delivery and then travel. Though the Wright Brothers already held a place in American hearts, figures like Charles Lindbergh and Amelia Earhart captivated the nation during this era as they daringly pushed planes to new and unforeseen limits.

In addition to being the first to make a solo flight across the Atlantic in 1927, Charles Lindbergh was chief pilot for Robertson Aircraft Corporation of Missouri, a mail carrier.⁵ In 1929, the Aviation

Corporation formed to acquire young aviation companies, including Lindbergh's. The Aviation Corporation eventually incorporated into American Airlines in 1934. By 1937, American had carried its one-millionth passenger, and in 1939 American began trading on the New York Stock Exchange. By the end of the 1930s, American became the nation's number one domestic air carrier in terms of revenue passenger miles.

In the 1940s, the United States was again a nation at war. American took a proactive effort in World War II by turning half of its fleet over to the military airline, Air Transport Command, along with crews who operated all over the world. American found its place in the war effort as a supplier not only of necessary assets, but of jobs on the home front, as it continued to grow and take advantage of new opportunities. By 1950, American added freight service to its fleet and expanded to become the first American airline to serve Europe. The 1950s and 1960s brought additional expansion and innovation. In 1959, American offered coast-to-coast jet service and introduced the turbofan engine in 1961. In 1964, American was the first airline to introduce an automated data processing system, SABRE, which was second in size only to the U.S. Government's SAGE system.⁶

Deregulation in 1978 brought a significant change to American and the entire airline industry. Until 1978, the U.S. Government regulated much of commercial aviation, including fares, routes and schedules. The 1978 removal of regulations changed the face of civil aviation, and free competition ushered in a new era of passenger air travel. Airlines canceled routes to smaller cities to focus on larger, more profitable hub-cities. Smaller airlines entered the market due to lessened government regulations. Prices were driven down, and competition was fierce.⁷ The year 1979, consequently, saw record highs in passenger travel. Unfortunately, however, the bliss did not last long. Rising fuel prices and the economic hardships of the 1980s hit the industry hard.

American approached the 1980s head on and survived. American reorganized to form AMR in 1982, opened a variety of innovative and profitable subsidiaries⁸, and continued expansion to new areas, including the Caribbean, India and South America. While some of its competitors were failing, AMR moved forward with a variety of innovative programs focusing on customer service and value pricing. The late 1980s brought One-Stop-Automated Check-In and the AADVANTAGE travel awards program. In the 1990s came the Super Saver fares and AAirpass.⁹ And in 1999, AMR introduced its crowning achievement – the customer-driven “oneworld” global alliance – a multi-million dollar program designed to raise the standard of global air travel.¹⁰ The company eventually acquired TWA in 2001.

As the new century dawned, AMR continued its aggressive track of route expansion, innovation and improvement of customer experiences through technology, fair pricing and comfort. Highlights of this time period include the EveryFare Program¹¹ and the development of aa.com. Mobile boarding, in-flight entertainment, and a movement towards paperless freight documentation were also on AMR's agenda during this time. The 2000s, sadly, are also defined by the tragedy of September 11, 2001. Record lows in passenger travel, rising fuel prices, and a variety of other economic influences raised costs and reduced revenues of airlines across the board. Many players in the airline industry, a unionized field, found themselves stuck in unrealistic labor contracts that were made when times were better, but were proving unsustainable in times of hardship. Bankruptcy proved to be the only way out of these and other high stakes contracts for most of the larger carriers. AMR was not one of those airlines.

As the majority of the major reorganized airlines started coming back to profitability in 2008, AMR saw losses of \$4 billion from 2008 to 2010.¹² Unlike its competitors, AMR had not been able to reduce its debt through renegotiation of labor contracts or other debts. It could find no viable way to lower costs and could not risk raising prices because of strict fare competition and sensitive consumers. Rising gas prices and reduced consumer spending, among other things, put AMR over the edge. In November 2011, AMR finally filed for reorganization through Chapter 11 of the United States Bankruptcy Code, which creates a legal status through which a company can temporarily delay debt payments while continuing to function. Companies that wish to reorganize and renegotiate binding contracts are often the most attracted to Chapter 11 reorganization, because it provides an allowable time period in which the company can get back on its feet. All major decisions during Chapter 11 are approved through the court, as well as any discharge of debt.

THE COMPANY

American Airlines is the principal subsidiary of AMR and was founded in 1934.¹³ AMR Eagle Holding Corporation is a wholly owned subsidiary of AMR that owns two regional airlines, which do business as American Eagle Airlines, Inc. and Executive Airlines, Inc. American also contracts with an independently owned regional airline, which does business as “AmericanConnection.”¹⁴

The AMR Eagle fleet is operated to feed passenger traffic to American pursuant to a capacity purchase agreement between American and AMR Eagle under which American receives all passenger revenue from flights and pays AMR Eagle a fee for each flight. The capacity purchase agreement reflects what the company believes are current market rates received by other regional carriers for similar flying. Amounts paid to AMR Eagle under the capacity purchase agreement are available to pay for various operating expenses of AMR Eagle, such as crew expenses, maintenance, and other aircraft related expenses. As of December 31, 2011, AMR Eagle operated approximately 1,500 daily departures, offering scheduled passenger service to over 175 destinations in North America, Mexico and the Caribbean. On a separate company basis, AMR Eagle reported \$2.5 billion in revenue in 2011.¹⁵

The Management Team

American Airlines’ management team has experienced significant changes in the wake of the company’s bankruptcy filing. The senior management ranks have been cut from 14 people to 10, with the company explaining that changes have been in an effort to streamline business units handling customer-facing activities.¹⁶ Notably, two senior executive positions shuffled at the end of 2011 were in flight operations and employee relations, areas that have been sources of trouble for American in recent years.¹⁷

Chairman and Chief Executive Officer: Thomas W. Horton

In November 2011 Thomas Horton was named Chairman and CEO of AMR Corporation and American Airlines, Inc., succeeding Gerard Arpey. Mr. Horton initially joined AMR in 1985 and held a range of senior financial positions, including Vice President and Controller. From 1998 to 2000 he was vice president responsible for European business. In January 2000, Horton became Senior Vice President and Chief Financial Officer of AMR. From 2002 to 2005, Mr. Horton left for AT&T Corp., but returned to AMR as Executive Vice President of Finance and Planning, and CFO.

President and CEO: Daniel P. Garton

Mr. Garton has been President and CEO of AMR Eagle since June 2010 and has been associated with the company in some capacity since 1984. From 1995 to 1998, Mr. Garton served as President of AMR Eagle. From 1998 to 2000 he was Senior Vice President of Customer Services at American and then elevated to Executive Vice President of that division from 2000 to 2002. Finally, prior to becoming President and CEO, Mr. Garton served as Executive Vice President of Marketing at American from 2002 to 2010.

Senior Vice President and General Counsel: Gary F. Kennedy

Mr. Kennedy has been Senior Vice President and General Counsel of AMR and American since January 2003. He is also the Chief Compliance Officer. He served as Vice President of Corporate Real Estate at American from 1996 to January 2003. Prior to that, he served as an attorney and in various management positions.

Senior Vice President and Chief Financial Officer: Isabella D. Goren

Ms. Goren was named Senior Vice President and Chief Financial Officer of AMR and American in July 2010. She served as Senior Vice President of Customer Relationship Marketing from March 2006 to July 2010. Prior to that, she served as Vice President of Interactive Marketing and Reservations from July 2003 to March 2006, and as Vice President of Customer Services Planning from October 1998 to July 2003. She has been with the Company in various management positions since 1986.¹⁸

Board of Directors

The Board of Directors is chaired by CEO Thomas Horton. As stated in the company's Board of Directors Governance Policies, the responsibility of each director is to provide effective governance over the Company's affairs for the benefit of the company and its shareholders.¹⁹ In addition to Chairman Horton, the Board of Directors has eleven other independent directors. For further information on directors, see Exhibit 1.

Labor and Pension Tension

AMR has approximately 80,000 employees and is heavily unionized.²⁰ The majority of the employees are represented by one of three unions: the Allied Pilots Association (APA), the Transport Worker's Union (TWU) and the Association of Professional Flight Attendants (APFA).

Relations between AMR and the unions over the last several years have been contentious. Prior to AMR's bankruptcy filing, a mediator was appointed to cover the negotiations between the unions and AMR. Little was accomplished or agreed upon even after four years of negotiating. Shortly after AMR filed for bankruptcy, AMR requested that the bankruptcy judge grant an abrogation of the labor contracts. To convince a bankruptcy judge to agree to such an abrogation, AMR will have to prove that it cannot successfully reorganize without abrogating the labor pension contracts, which total \$800 million. AMR has also stated publicly that part of the reorganization will include 13,000 job cuts.²¹

Another player involved in this decision is the Pension Benefit Guaranty Corp (PBGC).²² In the event the court grants AMR's request, the PBGC would be liable for the \$800 million in pension benefits. At

this point in time, it remains to be seen whether AMR can successfully abrogate its contracts with the unions and shift liability to the PBGC.

Customer Service Problems

Along with US Airways Group, American Airlines fared worst when a survey was done about hassle rankings covering the largest 10 U.S. carriers. The survey looked at expenses such as luggage charges and rebooking fees, as well as data like scrubbed flights and percentage of filled seats. Additionally, US Airways, American and United ranked the lowest on Bloomberg's analysis of operating performance and service charges.²³ On a scale of one to 100, American scored the lowest with 31.2. US Airways received a score of 32.5, while United came in third to last with 33.6 points. At the other end of the spectrum, Southwest ranked No. 1 with a score of 73.2, followed by Frontier with 61.6.²⁴

Company Strategies

American's strategies are centered on managing costs and retaining its customer base through alliances and rewards programs.

Frequent Flier Program – AAdvantage

AAdvantage is the name of AMR's Frequent Flier Program. It is directly linked with the **oneworld** alliance in that it allows customers to earn points and redeem miles not only at American Airlines and other subsidiaries of AMR, but at members of the **oneworld** alliance as well.

According to its company website, AMR's AAdvantage program is one of the largest and most popular loyalty programs in the world. Members can earn miles for flying on American Airlines and participant airlines as well as through transactions with over 1,000 participating companies, both travel and non-travel related. Members can redeem miles for flights to almost 950 destinations worldwide as well as other awards including flight upgrades, vacation packages, car rentals, hotel stays and other retail products.²⁵

Oneworld Alliance

American Airlines is a founding member of the **oneworld** alliance, which brings together some of the best and biggest names in the airline business, enabling them to offer their customers more services and benefits than any airline can provide on its own.²⁶ The **oneworld** alliance links the networks of the member carriers to enhance customer service and smooth connections to the destinations served by the alliance, including linking the carriers' frequent flyer programs and access to the carriers' airport lounge facilities.²⁷

Through code sharing (providing flights on any member airline), **oneworld** members and affiliate airlines extend the AMR network to over 800 destinations in 150 countries. Choosing **oneworld** airlines ensures travelers they will be rewarded and that status as a member of AMR's frequent flier program, AAdvantage, will be recognized.²⁸ **Oneworld** members span the globe. Examples include Japan Airlines, British Airways, Finnair, and AirBerlin.

American's alliance-based business model focuses on the needs of the high-value traveler, but also delivers revenue and cost saving opportunities to member airlines. For example, interline revenues

generated within **oneworld** have grown 150% during the past 10 years, from less than \$1 billion to \$2.5 billion. All together, they total \$16.2 billion for the decade, or 3% of its member airlines' total passenger revenues.²⁹

Information Technology Systems

In 1959, American and IBM announced plans to develop SABRE, Semi-Automated Business Research Environment. This new technology would replace the handwritten reservation system of the 1950s. By 1964, the network was complete. In 1986, Sabre became a division of AMR and the system began a decade of international expansion, providing services to both American and other airlines. In 1996, Sabre made an initial public offering of 18 percent of its stock, and launched the web-based vendor Travelocity.com.³⁰ Finally, in 2000, Sabre was spun off from AMR.³¹

The information technology (IT) systems that most airlines, including American, largely rely on were built several decades ago. Now, airlines are struggling to catch up to the sophisticated technology levels that customers use themselves and expect from their air travel providers. Much of the frustration that customers experience during air travel has to do with long lines, lack of rapidly updated information, and inability to communicate with an airline representative when problems arise.

In 2009, American introduced technology called YADA (“your assistance delivered anywhere”) to manage some of the frustrations that passengers experience as a result of outdated technology.³² YADA uses handheld devices and allows American agents to rebook passengers on a different flight, provide assistance with gate changes or track down a lost bag without the long lines commonly associated with such problems.³³ The technology has been deployed in some of American’s larger airport markets, including Boston, Dallas/Fort Worth, Miami, New York Kennedy, and San Juan.

In July of 2011, AMR announced that it was releasing the first version of its iPhone application. According to the airline, the free app—available on iPhone, Android, and Nook platforms—allows travelers to: set parking reminders, monitor standby lists, track elite status progress, view personal flight details, receive gate, seat, and flight status information, access and save a mobile boarding pass, use a global positioning system (GPS) to locate the nearest airport served by American, view terminal maps and play Sudoku. The app also provides direct and easy access to a variety of other tools that help customers to book and check in for flights, create flight status notifications, check flight status and schedules, access AAdvantage account information, enroll in the AAdvantage program and access contact information.³⁴

According to AMR’s Senior Vice President of IT and CIO, “Mobility is at the heart of much of what we are implementing today to dramatically improve our customers’ interaction with American - from Mobile Boarding to the many portable technologies our employees are equipped with.” AMR intends to further utilize the iPhone’s GPS features, enable push notifications, facilitate international flight check-in, and allow viewing of upgrades. These and other improvements should streamline air travel for consumers.³⁵

Philanthropic Focus

Although airlines have had long-standing philanthropic projects, in recent years, many have begun to feature their corporate citizenship more prominently. American has kept up with this trend successfully

by having a number of charitable programs that serve a variety of community groups. Most notably, American allows members of its Frequent Flier Program to earn AAdvantage miles for every dollar donated to a range of causes, including the United Service Organization, a private organization that provides morale-boosting recreational activities for the U.S. military and the Susan G. Komen Foundation, which promotes education and research about causes, treatments, and the search for a cure for breast cancer.³⁶

Operations

AMR is headquartered in Fort Worth, Texas and employs more than 87,000 people around the world.³⁷ Between American Airlines and American Eagle, the company's active fleet includes eleven varieties of airplanes, and a total of 898 planes.³⁸

Domestic Operations

American operates in five primary domestic markets: Dallas/Fort Worth (DFW), Chicago O'Hare, Miami, New York City and Los Angeles under a "cornerstone" strategy.³⁹ American Eagle carriers increase the number of markets the Company serves by providing connections to American's primary markets. AmericanConnection currently provides connecting service to American through Chicago O'Hare. American's competitors also own or have marketing agreements with regional carriers that provide similar services at their major hubs and other locations.⁴⁰

The cornerstone strategy, which pulls most of AMR's capacity into the five major hubs mentioned above, was developed by Thomas Horton before he was promoted to his current position as CEO. Mr. Horton has stated that this plan is for AMR's future, and that once costs are addressed, the benefit of the strategy will become clear. It has received criticism from analysts thus far because AMR is not known to have a commanding hold at any of these hubs.⁴¹

International Operations

In addition to its extensive domestic service, the Company provides international service to the Caribbean, Canada, Latin America, Europe and Asia. The Company's operating revenues from foreign operations (flights serving international destinations) were approximately 40 percent of the Company's total operating revenues in each of the three years 2011, 2010, and 2009.⁴²

Ticket Sales

In late 2010, American withdrew its inventory from Orbitz, a major online retailer, because the two firms failed to come to an agreement during contract renegotiations. Quick reactions from other web-based travel distributors ensued: Expedia pulled American flights from its website and Sabre announced that it would raise the fees it charged American to distribute fare and schedule information.⁴³ The conflict between American and the online retailers was a result of the airline's effort to increase profitability and gain greater control over the ticket sales process by selling more of its tickets directly.

Airline ticket sales take place primarily through three channels: (1) direct sales, (2) travel agencies, and (3) web-based distributors. American sells an estimated two thirds of its seats indirectly, and spends roughly \$1 billion per year on ticket distribution. The use of third party vendors provides

the airlines with access to a wider customer base, and provides the customer with more information than a direct sales platform might. Direct ticket sales provide American the opportunity to offer special deals and upgrades at the point of sale, with a price, which translate into additional revenue. For American, there is risk associated with focusing on direct sales as much of American's revenue is derived from purchases made by corporate travel management companies, which use global distribution system (GDS) providers to book tickets.

Freight and Cargo

American Airlines Cargo, a division of American, provides over 100 million pounds of weekly cargo lift capacity to major cities in the United States, Europe, Canada, Mexico, the Caribbean, Latin America and Asia. American's cargo network is one of the largest air cargo networks in the world, with facilities and interline connections available across the globe. In 2011, American Airlines Cargo generated \$703 million in freight and mail revenue, accounting for approximately 3.0% of AMR's operating revenues. This was a 4.5% increase from 2010.⁴⁴

Other Revenues

Revenues from other operations make up 10.9% of total revenues, including revenue from the marketing services related to the sale of mileage credits in the AAdvantage program, membership fees and related revenue from the Company's Admirals Club operations, and other miscellaneous service revenue, including administrative service charges and baggage handling fees. Other revenues have been increasing as the Company unbundles its services and charges for ancillary services.⁴⁵

Financial Performance

By the end of 2011, AMR had posted its fourth straight full-year loss, with a net loss of \$1.98 billion for 2011. AMR's losses compared to profits of \$864 million at United Continental Holdings and \$854 million at Delta Air Lines especially highlight the company's financial woes.⁴⁶ A challenging economy and sharply rising fuel prices created further hardships for AMR. For detailed financial statements, see Exhibit 2.

THE AIRLINE INDUSTRY

The U.S. travel market declined 8.8% between 2008 and 2009 to \$704 billion. Growth is expected to be modest through 2012, as consumers search for the best travel values available, choose to stay at home during vacation time, drive rather than fly, stay in mid-priced hotels, or otherwise seek ways to save money if they do travel.⁴⁷ Business travelers have not been as hard hit by the recession as leisure travelers. As one bright spot in the industry, air freight revenues increased 5.2% in February 2012 from the previous year.⁴⁸

Competition

The domestic airline industry is fiercely competitive on both an international and domestic scale. Domestically, any U.S. air carrier deemed fit by the U.S. Department of Transportation (DOT) can operate scheduled passenger service between any two points within the U.S. and its possessions. Most major air carriers have developed hub-and-spoke systems and schedule patterns in an effort to

maximize the revenue potential of their service. Internationally, the market is made up of foreign investor-owned carriers, foreign state-owned carriers and U.S. airlines that have been granted authority to provide scheduled passenger and cargo service between the U.S. and various overseas locations. In general, carriers that have the greatest ability to seamlessly connect passengers to and from markets beyond the nonstop city pair have a competitive advantage.

AMR's major competitors consist of similarly situated legacy airlines and emerging low-cost carriers. On most of its domestic non-stop routes, AMR faces competing service from at least one, and sometimes more than one, domestic airline including: Alaska Airlines (Alaska), Delta, Frontier Airlines, JetBlue, Hawaiian Airlines, Southwest/AirTran, Spirit, United/Continental, US Airways, Virgin America and their affiliated regional carriers. Competition is even greater between cities that require a connection, where the major airlines compete via their respective hubs. In addition, the company faces competition on some of its connecting routes from carriers operating point-to-point service on such routes. AMR also competes with all-cargo and charter carriers and, particularly on shorter segments, ground and rail transportation. For a break down of the operating revenues of AMR and some of its competitors, see Exhibit 3.⁴⁹

The domestic airline industry is characterized by intense price competition. Despite the fact that airlines are permitted to establish their own domestic fares without governmental regulation, airline pricing decisions are often affected, in large part, by the need to meet competition from other airlines. Fare discounting by competitors often leaves airlines bound to match fares, as failing to do so would result in fewer fares and even less revenue due to customer price sensitivity.⁵⁰ This problem is not as great on the international scale, as the U.S. Department of Transportation maintains authority over certain international fares, rates and charges. Additionally, international fares and rates are often subject to the foreign government restrictions of the countries the airline serves. Airlines are required to adhere to international fare and rate tariffs, but brokers and wholesalers still characterize many international markets.⁵¹

The largest development in the airline industry's competitive landscape has come from consolidation. The market is ripe for acquisitions, as rising oil prices pinch carrier profits. Through consolidation, carriers are able to eliminate overlapping routes and reduce overall capacity. With a smaller supply of available seats, prices for remaining seats rise, and lead to an increase in revenue.⁵²

The largest mergers and/or acquisitions over the past few years include:

Delta/Northwest: This deal closed in October of 2008 after receiving regulatory and shareholder approval. In January 2010, the airlines completed integration and began to fly as a single carrier.

Continental/United: This merger closed in October 2010 and the integration is still in progress. The brands are expected to operate separately until mid-2012, when the combined airline will take over Delta as the nation's largest carrier.

Southwest/AirTran: Southwest announced its purchase of AirTran for \$1.4 billion in September 2010. The acquisition closed in May 2011 and increased Southwest's passenger traffic by 25%.⁵³

The legacy airlines compete with a number of low-cost carriers in the domestic market. Low cost carriers performed better than major airlines in 2011 in terms of increased customer traffic, though Southwest and JetBlue have not benefitted from the tremendous growth in ancillary fees that other

airlines have enjoyed. In May 2011, Southwest reported a 10.9% year-on-year increase in traffic, and JetBlue reported a 10.6% increase, while growth was slower at Delta and American, and traffic declined at United and Continental.⁵⁴

Several major airlines, as a result of this low cost competition, have implemented efforts to lower their costs since lower cost structures enable airlines to offer lower fares. All of the legacy airlines remaining in the market, except for AMR, have reorganized in recent years under Chapter 11, which has allowed the airlines to decrease operating costs. Lower cost structures have generally resulted in fare reductions.⁵⁵

Suppliers

Airlines like AMR and those competing with AMR require a large number of planes to support their daily operations. Planes are expensive and take a long time to produce. Planes also need to be replaced over time; this replacement timing and process is strictly regulated due to safety concerns of aging jets. The legacy airlines, including AMR, have a number of different plane types in their fleets, varying in shape, size, comfort level, capacity and speed. Most low cost carriers, on the other hand, stick to one type of plane to cut costs through economies of scale. Maintenance and training costs are reduced when mechanics only need to know how to fix one plane, and pilots only need to know how to fly one plane.

The producers of planes are also under strict guidelines for production – so there are very few suppliers (Boeing, Airbus, Lockheed, Embraer, Bombardier), and they have a very strong hold on the market. At the same time, those suppliers are watching many of the airlines struggle or fail, so there is some negotiation possible, and they do not have ultimate power in the bargaining situation with airlines.⁵⁶ AMR ordered 460 planes from Boeing and Airbus shortly before filing for Chapter 11.⁵⁷

Fuel makes up approximately one-third of airline costs, according to International Air Transport Association (IATA). Consequently, the price of fuel directly impacts the earning ability of airlines. The IATA said in March of 2012 that rising fuel costs could cause the airline industry's profits to plunge 62 percent this year, a bigger drop than predicted four months before.⁵⁸ Most airlines attempt to hedge their risk of fuel price increases through trading and shipping fuel themselves and by maintaining fuel storage facilities to support flight operations, as well as by hedging contracts.⁵⁹ Airlines attempt to hedge strategies to work around oil price fluctuations that naturally feed into fuel costs necessary to transport passengers. There is inherent risk in this strategy; one of the few to hedge this risk successfully was Southwest Airlines.⁶⁰

Trends

Alliances in the airline industry emerged in the 1930s, but the 1997 formation of Star Alliance marked the beginning of the modern trend. **Oneworld** and **SkyTeam** followed Star Alliance, and together the three alliances now represent over 70% of scheduled flights. Only two of the world's largest 20 airlines are unaligned.⁶¹ From a customer service standpoint, alliances have helped airlines provide more comprehensive international travel options to their customers, often taking advantage of alliance member presence in other destinations, while maintaining the customer's elite travel status or allowing the customer to accumulate frequent flyer miles while using a different airline.⁶² From a revenue-based standpoint, alliances allow individual airlines to create cost efficiencies because the

alliance members work together on routes, schedules, and marketing.⁶³ In the future, the branding of alliances is expected to become more important to the marketing of air travel than the underlying airlines themselves. In other words, competition in the airline industry in the future will be primarily between alliances (Star, **oneworld**, and SkyTeam) rather than among individual airlines (e.g., American and Delta).⁶⁴

Information technology (IT) is another vital aspect of modern airline operations. While IT system glitches are frustrating for any small or large business, the ripple effect of an IT glitch for an airline can result in chaos: dozens of canceled flights, hundreds of delays, and thousands of customers affected. To prevent catastrophic outages and to keep customers happy, airlines need to constantly upgrade their IT systems. However, financial pressures and the complexity of the technology have caused airlines to fall behind. While airlines typically spend 2.5-3.5% of their revenue on IT, a 2011 survey predicted that the world's largest airlines would spend only about 1.8% of their operating revenue on IT during that year.⁶⁵

Another recent trend in the airline industry is the growth of frequent flyer mile programs as a source of revenue. Airlines sell miles to credit card companies (which they then distribute to their customers as incentives). The airlines earn revenues at the point of sale to the credit card company rather than at the point of sale of a ticket. Miles are not redeemed until some point in the future, if ever. This creates a guaranteed revenue stream for the airline.⁶⁶

Following the trend of cost-consciousness, many large airlines are attempting to cut out the middleman and sell more tickets directly. The relationship between airlines, global distribution system (GDS) providers, and web-based vendors is complicated. Airlines face immense pressure to manage costs, especially costs that can be controlled (unlike fuel prices). As contracts between airlines and intermediaries come up for renewal, the airlines are likely to push for more control to increase profit margins. GDS providers argue that they provide a valuable service to airlines and consumers at a competitive price. Nevertheless, some domestic airlines, namely JetBlue and Southwest, have already bypassed the third party vendors and sell the majority of their tickets directly to consumers. However, their success in direct sales is related to their relatively low share of corporate customers.

Although there has always been a pressure on airlines to increase their environmental friendliness, of late there is an intensified push, and the airlines seem to be listening. Airlines benefit from eco-friendly measures in two ways: they improve goodwill with travelers and often end up reducing costs through reduced fuel consumption. At the forefront of this movement is Nature Air, the first certified carbon-neutral airline. Airbus and Lufthansa are also known for eco-friendliness because of their June 2011 plan to start a six month trial utilizing an engine powered by 50% biofuels made from plants and animal waste. Southwest Airlines saves fuel by extending each flight by one to three minutes (slowing down improves engine efficiency and ultimately saves fuel), by introducing employee rideshare programs on the ground, and by adding "winglets" to the end of plane wings to save nearly 30 million gallons of jet fuel annually. Virgin American Airlines uses single-engine taxiing and cruise speed regulation to reduce climate change impact, uses biofuel on transatlantic flights, and invests a portion of its profits to renewable fuel research. Finally, Alaska Airlines gives corporate gifts to the nature conservancy and has started a Green Miles nonprofit program so that customers can support the company's efforts to conserve the Pacific Northwest by donating miles they've earned.⁶⁷

NEXT MOVES

Moving forward in 2012, Thomas Horton has many decisions to make. While he has stated that his decision to declare Chapter 11 was a strategic one, the company is at a critical crossroads. As the last legacy airline to declare bankruptcy, all eyes will be on him and his company. AMR must come up with a plan to deal with creditors, restore consumer confidence, and increase profit margins. The company must successfully renegotiate labor and pension contracts amid its tenuous relationships with unions, and determine what to do about its pending order of 460 aircrafts from Boeing and Airbus. There are also questions regarding what to do with American Eagle and AmericanConnection. These issues and many more are surely on the minds of Thomas Horton and all the leadership at AMR.

EXHIBIT 1 – American Airlines Board of Directors

Thomas W. Horton, Chairman, President and Chief Executive Officer, AMR Corporation / American Airlines Inc.

Fort Worth, Texas

Thomas W. Horton was named Chairman and Chief Executive Officer of AMR Corporation and American Airlines, Inc in November 2011 succeeding Gerard Arpey. Horton was promoted to President — AMR Corporation and American Airlines in July 2010. In this expanded role, he oversaw finance, planning, sales and marketing, customer service, information technology and American's global alliance strategy, including its role in the oneworld alliance. Previously, Horton served as Executive Vice President — Finance and Planning and Chief Financial Officer of AMR and American. He was named to that position in March 2006 upon returning to American from AT&T Corp., where he had been Vice Chairman and Chief Financial Officer. Horton initially joined AMR in 1985 and held a range of senior financial positions with AMR, including Vice President and Controller. From 1998 to 2000, he was vice president responsible for the airline's Europe business, based in London. In January 2000, Horton became Senior Vice President and Chief Financial Officer of AMR. In 2002, Horton joined AT&T, where he served first as Chief Financial Officer and then as Vice Chairman and CFO. In 2005, Horton led the evaluation of strategic alternatives, ultimately, leading to the combination with SBC, which formed the new AT&T. Horton holds an MBA degree from the Cox School of Business at Southern Methodist University and graduated with a BBA degree, magna cum laude, from Baylor University. Horton serves on the Board of Directors of Qualcomm, Inc., a leading developer and innovator of advanced wireless technologies and data solutions. He also serves on the Executive Board of the Cox School of Business at SMU.

John W. Bachmann, Senior Partner, Edward Jones

St. Louis, Missouri

Mr. Bachmann began his career at Edward Jones, one of the world's largest retail brokerage firms, in 1959. He has served in many capacities at the firm, including as its Managing Partner from 1980 to 2003. He has been Senior Partner at Edward Jones since January 2004. With his long history at Edward Jones and as its leader for many years, Mr. Bachmann has extensive financial, capital markets, strategic and executive leadership experience. He is also Senior Council Board Member of the United States Chamber of Commerce. He previously served as a director of the Monsanto Company and the National Association of Securities Dealers. His experience as a director and member of board committees of these and other companies provides important insights into corporate governance and board functions. He is a resident of St. Louis, Missouri, one of our important markets. His background and experience make him an effective member of the Board and its Audit and Diversity committees, and a strong Chairman of the Audit Committee.

Stephen M. Bennett, Chairman, Symantec Corporation

Mountain View, California

Mr. Bennett has served as a member of the Symantec Board since February 2010. Mr. Bennett was Chief Executive Officer of Intuit, Inc. from January 2000 to January 2008. Prior to Intuit, Mr. Bennett was at General Electric Corporation (GE) for 23 years. From December 1999 to January 2000, he was an executive vice president and a member of the board of directors of GE Capital, the financial services subsidiary of GE. From July 1999 to November 1999, he was President and Chief Executive Officer of GE Capital e-Business, and he was President and Chief Executive Officer of GE Capital Vendor Financial Services from April 1996 through June 1999. Mr. Bennett also serves as a director of Qualcomm and two private companies. He has previously served as a director of a variety of companies, including Intuit, Inc. and Sun Microsystems, Inc. He holds a degree in finance and real estate from the University of Wisconsin. On July 26, 2011, Symantec's Board of Directors appointed Stephen M. Bennett to the position of Chairman of the Board effective October 25, 2011.

Armando M. Codina, Chairman and Chief Executive Officer, Codina Partners, LLC

Coral Gables, Florida

Since January 1, 2011, Mr. Codina has been the Chairman and CEO of Codina Partners, LLC, a real estate investment and development firm based in Coral Gables, Florida. Mr. Codina formed Codina Partners in 2009 and through this entity and its affiliates is engaged in multiple real estate development and investment activities. Previously, he led the growth of Codina Group, a large South Florida-based commercial real estate firm, for 26 years as its founder, Chairman and CEO. In 2006, Codina Group merged with Florida East Coast Industries (“FECI”) and became FECI’s full-service real estate business, Flagler Development Group. He served as Flagler’s Chairman, Chief Executive Officer and President until September 2008, and as its Chairman until December 2010. Prior to founding Codina Group, he served as President of Professional Automated Services, Inc., which provided data processing services to physicians. Mr. Codina’s extensive experience in commercial real estate and business provides significant insight into the real estate, business, strategic and other issues we face. He is also a director of The Home Depot, Inc., and he previously served as a director of Bell South Corporation, General Motors Corporation, Merrill Lynch & Co., Inc. and Florida East Coast Industries, Inc. His experience as a director and member of board committees of these and other companies provides important insights into corporate governance and board functions. His deep roots in Florida also provide important perspective of one of our largest and most important markets. His background and experience make him an effective member of the Board and its Nominating/Corporate Governance Committee, and a strong Lead Director.

Alberto Ibargüen, President and Chief Executive Officer, John S. & James L. Knight Foundation

Miami, Florida

Mr. Ibargüen has served as President and CEO of the John S. and James L. Knight Foundation since July 2005. In this role, he has led the foundation’s support of journalism and civic advancement in 26 U.S. communities. Previously, Mr. Ibargüen served as Chairman of Miami Herald Publishing Co. from 1998 to 2005, a Knight Ridder subsidiary, and as publisher of *The Miami Herald* and of *El Nuevo Herald*. He therefore brings extensive media, philanthropic, strategic and executive leadership experience to the Board. He is a director of PepsiCo, Inc., AOL Inc. and the World Wide Web Foundation (based in Switzerland). He previously served as a director of NCL Corporation Ltd. and on the Advisory Committee of the Public Company Accounting Oversight Board. He is also a former Chairman of the Board of the Public Broadcasting Service and the Newseum in Washington, D.C. His experience as a director and member of board committees of these and other companies provides important insights into corporate governance and board functions. He is a resident of Miami, Florida, one of our largest and most important markets. His background and experience make him an effective member of the Board and its Audit and Diversity committees.

Ann M. Korologos, Retired Chairman, RAND Corporation Board of Trustees

Santa Monica, California

Mrs. Korologos held several important posts in the U.S. government, including U.S. Secretary of Labor from 1987 to 1989, and Under Secretary of the Department of Interior and Assistant Secretary of the Treasury before that. She most recently served as Chairman of the Board of Trustees of RAND Corporation, an international public policy research organization, from April 2004 to April 2009. From September 1989 until May 1990, Mrs. Korologos served as Chairman of the President’s Commission on Aviation Security and Terrorism. She has served as Chairman Emeritus of The Aspen Institute since August 2004, where she has served on its Board of Trustees since 1989. She also was Senior Advisor for Benedetto, Gartland & Company from 1996 to 2005. With her leadership roles in political, financial and other fields, Mrs. Korologos brings to our Board extensive public policy, financial, strategic and executive leadership experience. Mrs. Korologos is also a director of Harman International Industries, Incorporated, Host Hotels & Resorts, Inc. (formerly, Host Marriott Corporation), Vulcan Materials Company and Kellogg Company. She previously served as a director of Microsoft Corporation. Her experience as a director and member of board committees of these and other companies provides important insights into corporate governance and board functions. Her background and experience make her an effective member of the Board and its Diversity Committee.

Michael A. Miles, Special Limited Partner, Forstmann Little & Co.

New York, New York

Since 1995, Mr. Miles has been a Special Limited Partner and a member of the Advisory Board of Forstmann Little & Co., a New York-based private equity firm. Previously, he was Chairman and CEO of Philip Morris Companies Inc. from 1991 until his retirement in 1994, and he served as Chairman and CEO of Kraft Foods, Inc. before that. With roles at these and other companies, he brings extensive business, financial, strategic and executive leadership experience to the Board. Mr. Miles is also a director of Time Warner Inc., and previously served as a director of Citadel Broadcasting Corporation, Dell Inc. and Morgan Stanley. His experience as a director and member of committees provides important insights into corporate governance and board functions. He also resides in the Chicago area, one our largest and most important markets. His background and experience make him an effective member of the Board and Compensation Committee and a strong Chairman of that committee.

Philip J. Purcell, President, Continental Investors, LLC

Chicago, Illinois

Mr. Purcell became President and Chief Operating Officer of Dean Witter in 1982. He was Chairman and CEO of Dean Witter Discover & Co. from 1986 until it acquired Morgan Stanley in 1997. He then served as Chairman and CEO of Morgan Stanley until he retired in July 2005. Mr. Purcell has been the President of private equity firm Continental Investors, LLC since January 2006. With his leadership roles at major financial services companies and a private equity firm, Mr. Purcell has extensive financial, capital markets, strategic and executive leadership experience. He also previously served as a director of the New York Stock Exchange, including as its Vice Chairman during 1995 and 1996. His experience as a chairman and director of these and other companies provides important insights into corporate governance and board functions. He also resides in the Chicago area, one our largest and most important markets. His background and experience make him an effective member of the Board and its Compensation and Nominating/Corporate Governance committees.

Ray M. Robinson, Chairman, Citizens Trust Bank

Atlanta, Georgia

Mr. Robinson started his career at AT&T in 1968, and prior to his retirement in 2003, he held several executive positions, including President of the Southern Region, its largest region, President and CEO of AT&T Tridom, Vice President of Operations for AT&T Business Customer Care, Senior Vice President of AT&T Outbound Services and Vice President of AT&T Public Relations. Since 2003, Mr. Robinson has served as Chairman of Citizens Trust Bank of Atlanta, Georgia, the largest African American-owned bank in the southeast U.S. and the nation's second largest. With his numerous executive leadership positions, Mr. Robinson has extensive technology, banking, communications, strategic and executive leadership experience. Mr. Robinson is also a director of Aaron's, Inc., Acuity Brands, Inc., Avnet, Inc. and RailAmerica Inc., and he previously served as a director of ChoicePoint. His experience as a director and member of board committees of these and other companies provides important insights into corporate governance and board functions. He resides in the Atlanta, Georgia area, an important business center, where he has been Vice Chairman of the East Lake Community Foundation since November 2003. His background and experience make him an effective member of the Board and its Audit and Nominating/Corporate Governance committees.

Dr. Judith Rodin, President, The Rockefeller Foundation

New York, New York

Dr. Rodin has served as President of The Rockefeller Foundation since March 2005. The foundation, founded in 1913, supports efforts to combat global social, economic, health and environmental challenges. From 1994 to 2004, Dr. Rodin led the University of Pennsylvania through significant growth as its President. Before that, at Yale University, she chaired the Department of Psychology, served as Dean of the Graduate School of Arts and Sciences and Provost, and she was a faculty member for 22 years. As the leader of important philanthropic and higher learning institutions, Dr. Rodin has extensive educational, philanthropic, strategic and executive leadership experience. Dr. Rodin is also a director of Citigroup Inc. and Comcast Corporation. Her experience

as a director and member of board committees of these and other companies provides important insights into corporate governance and board functions. She is a resident of New York City, one of our most important markets. Her background and experience make her an effective member of the Board and its Compensation Committee.

Matthew K. Rose, Chairman and Chief Executive Officer, BNSF Railway

Fort Worth Texas

Mr. Rose has been Chairman and CEO of BNSF Railway, one of the largest freight rail systems in North America, since 2000. He has also served as the Chairman and CEO of its parent, Burlington Northern Santa Fe, LLC (a subsidiary of Berkshire Hathaway Inc.) or its predecessors since 2002. He served as its President until November 2010. Before serving as its chairman, Mr. Rose held several leadership positions there and at its predecessors, including President and CEO from 2000 to 2002, President and COO from 1999 to 2000, and Senior Vice President and COO from 1997 to 1999. As the Chairman and CEO of a major transportation company, Mr. Rose brings to the Board extensive business, financial, strategic and executive leadership experience in the transportation industry. He is also a director of AT&T Inc., and he previously served as a director of Centex Corporation. His experience as director and member of board committees provides important insights into corporate governance and board functions. He lives in the Dallas-Fort Worth area, where our headquarters and principal hub are located. His background and experience make him an effective member of the Board and its Compensation Committee.

Roger T. Staubach, Executive Chairman – Americas, Jones, Lang, LaSalle, Inc.

Dallas, Texas

Mr. Staubach founded The Staubach Company, a large commercial real estate firm until its merger with Jones Lang LaSalle Incorporated in July 2008. He has served as a director and as Executive Chairman, Americas, of Jones Lang LaSalle Incorporated since the merger. Prior to that, he served as Executive Chairman of The Staubach Company from July 2007 to July 2008, and Chairman and Chief Executive Officer from 1982 to June 2007. A graduate of the United States Naval Academy in 1965, Mr. Staubach served four years as an officer in the U.S. Navy, and he played professional football from 1969 to 1979 with the Dallas Cowboys. Through his service as chairman and/or CEO of two large commercial real estate firms, Mr. Staubach has extensive real estate, business, strategic and executive leadership experience. Mr. Staubach is also a director of Cinemark Holdings, Inc., and he previously served as a director of McLeod USA Incorporated. His experience as a director of these and other companies provides important insights into corporate governance and board functions. He lives in the Dallas-Fort Worth area, where our headquarters and principal hub are located. His background and experience make him an effective member of the Board and the Diversity Committee and a strong Chairman of that committee.

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EXHIBIT 2: Financial Statements for American Airlines, Inc.

AMERICAN AIRLINES, INC.
 DEBTOR AND DEBTOR-IN-POSSESSION
CONSOLIDATED STATEMENTS OF OPERATIONS
 (in millions, except per share amounts)

| | For the Year Ended December 31 | | |
|---|--------------------------------|-----------|-----------|
| | 2011 | 2010 | 2009 |
| Revenues | | | |
| Passenger- American Airlines | \$ 17,947 | \$ 16,760 | \$ 15,037 |
| Regional Affiliates | 2,724 | 2,327 | 2,012 |
| Cargo | 703 | 672 | 578 |
| Other Revenues | 2,583 | 2,391 | 2,271 |
| Total Operating Revenues | 23,957 | 22,150 | 19,898 |
| Expenses | | | |
| Aircraft fuel | 7,434 | 5,731 | 5,015 |
| Wages, salaries and benefits | 6,385 | 6,227 | 6,218 |
| Regional payments to AMR Eagle | 2,418 | 2,227 | 2,002 |
| Other rentals and landing fees | 1,305 | 1,284 | 1,230 |
| Depreciation and amortization | 950 | 935 | 954 |
| Maintenance, materials and repairs | 1,020 | 1,056 | 1,028 |
| Commissions, booking fees and credit card expense | 1,062 | 976 | 853 |
| Aircraft rentals | 673 | 592 | 516 |
| Food service | 518 | 490 | 487 |
| Special charges | 725 | | 171 |
| Other operating expenses | 2,637 | 2,481 | 2,587 |
| Total Operating Expenses | 25,127 | 21,999 | 21,061 |
| Operating Income (Loss) | (1,170) | 151.00 | (1,163) |
| Other Income (Expense) | | | |
| Interest income | 25 | 25 | 34 |
| Interest expense (contractual expense equals \$(691) for the year ended December 31, 2011) | (689) | (654) | (583) |
| Interest capitalized | 40 | 29 | 42 |
| Related party | (14) | (13) | (14) |
| Miscellaneous - net | (41) | (42) | (73) |
| | (679) | (655) | (594) |
| Earnings Before Reorganization Items, Net | (1,849) | (504) | (1,757) |
| Reorganization Items | (116) | | |
| Income (Loss) Before Income Taxes | (1,965) | (504) | (1,757) |
| Income tax (benefit) | | (35) | (283) |
| Net Earnings (Loss) | (1,965) | (469) | (1,474) |

AMERICAN AIRLINES, INC.
DEBTOR AND DEBTOR-IN-POSSESSION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in millions)

| | For the Year Ended December 31 | | |
|---|--------------------------------|-----------------|-------------------|
| | 2011 | 2010 | 2009 |
| Net Earnings (Loss) | \$ (1,965.00) | \$ (469.00) | \$ (1,474.00) |
| Other Comprehensive Income (Loss), Before Tax: | | | |
| Defined benefit pension plans and retiree medical: | | | |
| Amortization of actuarial loss and prior service cost | 130.00 | 138.00 | 136.00 |
| Current year change | (1,216.00) | (385.00) | (253.00) |
| Derivative financial instruments: | | | |
| Change in fair value | 190.00 | 72.00 | 151.00 |
| Reclassification into earnings | (313.00) | 144.00 | 662.00 |
| Unrealized gain (loss) on investments | | | |
| Net change in value | (1.00) | (1.00) | 6.00 |
| Other Comprehensive Income (Loss) Before Tax | (1,210.00) | (32.00) | 702.00 |
| Income tax expense on other comprehensive income | | | (248.00) |
| Comprehensive Income (Loss) | (3,175.00) | (501.00) | (1,020.00) |

AMERICAN AIRLINES, INC.
DEBTOR AND DEBTOR-IN-POSSESSION
CONSOLIDATED BALANCE SHEETS
(in millions, except shares and par value)

| | December 31, | |
|--|--------------|-----------|
| | 2011 | 2010 |
| Assets | | |
| Current Assets | | |
| Cash | \$ 280 | \$ 165 |
| Short-term investments | 3,714 | 4,322 |
| Restricted cash and short-term investments | 738 | 450 |
| Receivables, less allowance for uncollectible accounts (2011- \$51; 2010- \$57) | 883 | 719 |
| Inventories, less allowance for obsolescence (2011- \$530, 2010- \$479) | 583 | 542 |
| Fuel derivative contracts | 97 | 269 |
| Other current assets | 401 | 277 |
| Total Current Assets | 6,696 | 6,744 |
| Equipment and Property | | |
| Flight equipment, at cost | 17,890 | 16,787 |
| Less accumulated depreciation | 6,981 | 6,972 |
| | 10,909 | 9,815 |
| Purchase deposits for flight equipment | 746 | 355 |
| Other equipment and property, at cost | 5,012 | 5,019 |
| Less accumulated depreciation | 2,904 | 2,849 |
| | 2,108 | 2,170 |
| | 13,763 | 12,340 |
| Equipment and Property Under Capital Leases | | |
| Flight equipment | 641 | 605 |
| Other equipment and property | 199 | 217 |
| | 840 | 822 |
| Less accumulated amortization | 448 | 579 |
| | 392 | 243 |
| Other Assets | | |
| International slots and route authorities | 708 | 708 |
| Domestic slots and airport operating and gate lease rights, less accumulated amortization (2011- \$486; 2010- \$417) | 183 | 212 |
| Other Assets | 1,847 | 2,175 |
| | 2,738 | 3,095 |
| Total Assets | \$ 23,589 | \$ 22,422 |

AMERICAN AIRLINES, INC.
DEBTOR AND DEBTOR-IN-POSSESSION
CONSOLIDATED BALANCE SHEETS
(in millions, except shares and par value)

| | December 31, | |
|---|--------------|-----------|
| | 2011 | 2010 |
| Liabilities and Stockholders' Equity (Deficit) | | |
| Current Liabilities | | |
| Accounts payable | \$ 981 | \$ 1,073 |
| Accrued salaries and wages | 489 | 466 |
| Fuel derivative liability | | |
| Accrued liabilities | 1,306 | 1,489 |
| Air traffic liability | 4,223 | 3,656 |
| Payable to affiliates | 2,644 | 2,955 |
| Current maturities of long-term debt | 1,518 | 1,468 |
| Current obligations under capital leases | | 107 |
| Total Current Liabilities | 11,161 | 11,214 |
| Long Term Debt, Less Current Maturities | 6,729 | 6,095 |
| Obligations Under Capital Leases, Less Current Obligations | | 497 |
| Other Liabilities and Credits | | |
| Deferred gains | 110 | 270 |
| Pension and postretirement benefits | 9,204 | 7,876 |
| Other liabilities and deferred credits | 1,470 | 2,806 |
| | 10,784 | 10,952 |
| Liabilities Subject to Compromise | 3,952 | |
| Stockholders' Equity (Deficit) | | |
| Common Stock- \$1 par value; 1,000 shares authorized, issued and outstanding | | |
| Additional paid-in capital | 4,455 | 3,981 |
| Accumulated other comprehensive loss | (4,075) | 2,865 |
| Accumulated deficit | (9,417) | 7,452 |
| | (9,037) | 6,336 |
| Total Liabilities and Stockholders' Equity (Deficit) | \$ 23,589 | \$ 22,422 |

EXHIBIT 3: Major Competitors

| Operating Revenues of Leading Domestic Airlines, 2009 – 2010 (in millions) | | | | | | |
|---|--------------------|---------------------|--------------------|---------------------|---------------------|-----------------------------|
| Airline | 2010 Op Rev | 2010 % Share | 2009 Op Rev | 2009 % Share | % Change Rev | % Change Share Point |
| American | 22.2 | 15.2 | 19.9 | 15.3 | 11.6 | -.2 |
| Delta/NW* | 31.9 | 21.8 | 28.9 | 22.3 | 10.3 | -.5 |
| United** | 20.0 | 22.1 | 16.4 | 12.6 | 15.0 | 1.0 |
| Continental** | 14.2 | 9.7 | 12.4 | 9.5 | 15.0 | .2 |
| US Airways | 12.3 | 8.4 | 10.8 | 8.3 | 14.3 | .2 |
| Southwest*** | 12.1 | 8.3 | 10.4 | 8.0 | 17.1 | .3 |
| JetBlue | 3.8 | 2.6 | 3.3 | 2.5 | 16.2 | .1 |
| Other | 29.9 | 20.4 | 27.8 | 21.4 | 7.5 | -1.0 |

* 2009 Revenues include Northwest Airlines (acquired), which ceased separate operations in January 2010.

** United Airlines' parent company acquired Continental in October 2010, but the two airlines continued to operate as separate entities in 2010

***Does not include revenues from AirTran Airlines (acquired in September 2010)

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AMERICAN AIRLINES: BANKRUPT, LIKE EVERY OTHER LEGACY AIRLINE

DISCUSSION QUESTIONS

1. Why would American Airlines (AMR) wait so long to file Chapter 11, in spite of the fact that all its major competitors had already done so? What finally led company managers to file?
2. How does AMR's administrative heritage as one of the legacy airlines influence its ability to adapt to a changing organizational and industrial environment?
3. How does the fact that the current AMR CEO used to be the CFO of the organization and that the majority of the board of directors have ties to financial or investment companies influence AMR's strategy and how it is run?
4. How might AMR improve its relations with its unions? Describe the intended benefits and possible costs associated with actions to improve relations.
5. Describe AMR's business-level (competitive) strategy. What actions has the company taken to reinforce this strategy in recent years? Are they working?
6. Why is the airline industry divided in terms of customer service ratings? How have their strategic decisions up to this point resulted in being part of the group that has the lowest customer service scores? What is one recommendation you would make to improve their service?
7. Why has American increased their philanthropic activities in recent years? Should such a company with so many problems be involved in philanthropy or corporate social responsibility programs? Why or why not?
- 8a. Are the multi-airline industry alliances such as Star Alliance good for customers? Why? Are they good for the companies involved in them? Why? Do you think average airline profits are likely to be higher or lower in the future because of the alliances?
- 8b. How do you think the alliance structure can help airlines leverage relationships with both airplane manufacturers and suppliers of IT equipment that are essential for making their business run smoothly?
9. How can AMR reduce customer price sensitivity to their airline tickets? Do you think appealing to business travelers would help reduce price sensitivity? Why or why not? How would you think reducing price sensitivity would help their business model become more sustainable?